

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15

AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-04 OPIC-06

CIEP-02 LAB-04 SIL-01 OMB-01 STR-04 AGR-10 AGRE-00

CEA-01 FEA-01 DOTE-00 /114 W  
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R 241935Z SEP 76

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 7277

UNCLAS SECTION 1 OF 2 BUENOS AIRES 6292

E.O. 11652: N/A

TAGS: EGEN, EFIN, ELAB, AR

SUBJ: MAJOR SPEECH ON ARGENTINE ECONOMY BY MINISTER  
OF ECONOMY MARTINEZ DE HOZ

### 1. SUMMARY

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MINISTER MARTINEZ DE HOZ ADDRESSED THE NATION EVENING OF SEPT 22 OVER THE RADIO AND TV TO GIVE A REPORT ON THE CURRENT ECONOMIC SITUATION. HE RECOUNTED STATUS OF THE ECONOMY LAST MARCH WHEN THE GOVERNMENT TOOK OVER AND DESCRIBED DEVELOPMENTS SINCE THAT TIME. THE THRUST OF HIS SPEECH WAS TO EXPLAIN WHY THE GOVERNMENT COULD NOT AUTHORIZE ADDITIONAL SALARY INCREASES AT THIS TIME AND TO PLEAD FOR CONTINUED COOPERATION FROM BOTH LABOR AND BUSINESS UNTIL THE END OF THE YEAR. IF THIS AUSTERITY PROGRAM COULD BE REALIZED, HE OFFERED THE HOPE THAT THE RECOVERY IN 1977 COULD PROCEED ON A SOLID BASIS. IF NOT, HE WARNED THE PUBLIC THAT THERE WAS GREAT DANGER OF LOSING ALL THE GAINS THAT HAD BEEN ACHIEVED TO DATE.

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### 2. BALANCE OF PAYMENTS

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THE MINISTER RECOUNTED THAT THE BALANCE OF PAYMENTS SITUATION WHEN GOVERNMENT TOOK OVER WAS IN A CRITICAL STATE. FREE RESERVES HAD FALLEN TO LESS THAN \$10 MILLION. ARGENTINA FACED THE SPECTRE OF DEFAULT. WITHOUT NEW CREDITS, INDUSTRY WOULD NOT HAVE BEEN ABLE TO IMPORT NECESSARY RAW MATERIALS FOR PRODUCTION AND WOULD HAVE HAD TO SHUT DOWN ALMOST COMPLETELY. THE NEW GOVERNMENT ALTERED THIS SITUATION COMPLETELY BY OBTAINING FOREIGN FINANCING. THE MINISTER CLAIMED THAT VIRTUALLY ALL LARGE FINANCIAL INSTITUTIONS, PRIVATE BANKS AND EXPORT INSURANCE AND CREDIT ORGANIZATIONS ARE AGAIN DOING BUSINESS WITH ARGENTINA. HE MENTIONED THE \$115 MILLION CREDIT FOR THE STATE-OWNED POWER COMPANY, SEGBA, FIRST CREDIT GRANTED TO ARGENTINA BY THE WORLD BANK IN THE PAST FIVE YEARS AND SAID IT WAS AN INDICATION OF CONFIDENCE IN THE ARGENTINE PROGRAM.

### 3. INFLATION

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A. THE MINISTER REFERRED TO THE HIGH RATE OF INFLATION INHERITED FROM THE PREVIOUS GOVERNMENT AND THE ADVERSE EFFECT IT HAD ON REAL WAGES, SAVINGS, LOSS OF CONSUMER PURCHASING POWER AND BALANCE OF PAYMENTS. TO FACE THIS PROBLEM THE GOVERNMENT ADOPTED TWO MEASURES -- IT FREED PRICES AND FROZE WAGES. THE MEASURES SUCCEEDED IN REDUCING THE RATE OF INFLATION EVEN MORE RAPIDLY THAN DESIRABLE TO AN UNTENABLE LOW LEVEL. UNFORTUNATELY, THE GOVERNMENT CANNOT MANAGE THE ECONOMY BY DECREE, USING ONLY SUCH BROAD INSTRUMENTS AS FISCAL AND MONETARY POLICY WHICH CANNOT ACHIEVE RESULTS TO THE ACCURACY OF A MILLIMETER. THE MINISTER EMPHASIZED THAT, CONTRARY TO SOME REPORTS, A NEW INFLATIONARY SPIRAL HAS NOT BEGUN -- JUST A READJUSTMENT OF PRICES WHICH HAD BEEN HELD LOW ARTIFICIALLY. USING INDICES ADJUSTED FOR INFLATION, HE SHOWED HOW PRICES OF PUBLIC SERVICES ARE STILL BELOW THOSE IN 1960. HE CONDEMNED THE PREVIOUS GOVERNMENT'S POLICY OF DECEIVING THE PUBLIC

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INTO BELIEVING THAT THEY WERE PAYING LESS FOR THESE SERVICES WHEN IN FACT THEY PAID FOR THEM THROUGH INFLATION CAUSED BY MONETARY EMISSION TO COVER THE DEFICITS. B. WITH RESPECT TO MEAT, WHICH CARRIES A WEIGHT OF 25 PERCENT IN THE FOOD PRICE INDEX, THE MINISTER AGAIN STRESSED THAT PRICES WERE STILL FAR BELOW, IN REAL TERMS, THOSE IN 1960. HE SAID THE RECENT INCREASES IN MEAT PRICES WERE DUE TO A REDUCTION IN CATTLE

SUPPLY FOR THE INTERNAL MARKET CAUSED BY: (1) IMPROVED PASTURAGE PERMITTING FARMERS TO FATTEN CATTLE MORE BEFORE SENDING THEM TO MARKET; (2) INCREASED EXPORTS. TO REDUCE THE UPWARD PRESSURE ON MEAT PRICES, THE MINISTER ANNOUNCE THAT THE GOA WOULD ADOPT THE FOLLOWING MEASURES:

1) ADVANCING THE DATE (OCT15) FOR A TAX CREDIT TO BE GIVEN TO FARMERS TO KEEP CATTLE OFF THE MARKET.

2) SUSPENDING THE AUTHORIZATION GIVEN TO MEAT PACKERS TO BUY CATTLE DIRECTLY FROM THE FARMER, THUS INCREASING THE AVAILABILITY OF CATTLE IN THE MARKETS.

3) MAINTAINING THE EXISTING EXCHANGE RATE FOR THE EXPORT OF MEAT (THUS DENYING A REQUEST FOR AN INCREASE FROM MEAT PACKERS)

4) DIMINISHING MARKETING COSTS THROUGH DIRECT SALES OF MEAT BY CAP TO BUTCHER SHOPS.

5) PLACING ANNOUNCEMENTS IN THE NEWSPAPERS AND TV GIVING PRICE GUIDELINES FOR VARIOUS CUTS OF MEAT.

C. THE MINISTER SAID THAT RECENT PRICE INCREASES OF VEGETABLES WERE LARGELY SEASONAL IN NATURE. THESE PRICE PRESSURES WOULD BE REDUCED BY ELIMINATING THE BAN ON IMPORTS OF VEGETABLES AND DECREASING THE DUTY RATES APPLICABLE. D. WITH RESPECT TO MEDICINE, THE MINISTER SAID HE HAD OBTAINED THE COOPERATION OF THE CHAMBER OF MEDICAL PRODUCTS FOR THE EXTENSION OF VOLUNTARY PRICE FREEZES UNTIL OCT 30.

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#### 4. REAL SALARY

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THE MINISTER SAID THAT WHEN THE GOVERNMENT TOOK OVER IT WAS FACED WITH TWO CHOICES: EITHER DIMINISH THE RELATIVE LEVEL IN REAL SALARY OR KEEP THE SALARIES OF SOME AT A HIGH LEVEL WHILE OTHERS WERE UNEMPLOYED AND HAD NOTHING. THE GOVERNMENT OPTED FOR THE FIRST ALTERNATIVE AND HAD SUCCEEDED IN BRINGING THE COUNTRY THROUGH THE WORST MOMENTS OF THE RECESSION WITHOUT MASSIVE UNEMPLOYMENT AS OCCURRED IN EUROPE AND U.S. LAST YEAR. THE MINISTER SAID THE GOVERNMENT HAD MAINTAINED THE REAL SALARY AT THE LEVEL OF THAT OF MAY/JUNE, THE LOSSES IN APRIL HAD STILL NOT BEEN RECOVERED.

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CIEP-02 LAB-04 SIL-01 OMB-01 STR-04 AGR-10 AGRE-00

CEA-01 FEA-01 DOTE-00 /114 W  
----- 115198

R 241935Z SEP 76

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 7278

UNCLAS SECTION 2 OF 2 BUENOS AIRES 6292

5. CALL FOR COOPERATION

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A. NOW THAT THE ECONOMY HAS BEGUN TO RECOVER, THE MINISTER SAID HE HAD NOTED A TENDENCY FOR WORKING AND BUSINESSMEN TO RELAX THEIR EFFORTS. ALTHOUGH THE WORST PERIOD OF THE RECESSION IS OVER, THE PUBLIC MUST EXERCISE RESTRAINT AT LEAST UNTIL THE END OF THE YEAR. OTHERWISE, THERE WAS DANGER OF LOSING ALL THE GAINS TO DATE. HE SAID SOME WORKERS WORKING A NORMAL WORKWEEK HAVE BEGUN TO FEEL SECURE AND BELIEVE THEY CAN RETURN TO PREVIOUS PRACTICES. SALARY INCREASES BEYOND THE PRODUCTIVE CAPACITY OF THE ECONOMY WOULD ONLY REKINDLE INFLATIONARY PRESSURES AND WOULD BE IN THE END ILLUSORY. THE MINISTER GAVE THE EXAMPLE OF WAGE INCREASES UNDER THE PERONIST REGIME IN WHICH SALARIES WERE RAISED BY 366 PERCENT IN MARCH 75-MARCH 76 PERIOD BUT IN REAL TERMS WAGES DECREASED 35 PERCENT. INSTEAD OF TALKING ABOUT SALARY INCREASES, THE MINISTER EXHORTED WORKERS TO THINK OF INCREASED TAKE-HOME PAY RESULTING FROM LONGER HOURS WORKED. B. AT THE SAME TIME, HE SAID, SOME BUSINESSMEN

WHO HAD REDUCED PRICES WHEN DEMAND WAS LOW WERE NOW  
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TRYING TO MAKE UP THE DIFFERENCE BY INCREASING  
PRICES MORE THAN JUSTIFIED. D. THE MINISTER SAID HE  
PREFERRED TO APPEAL TO PATRIOTISM RATHER THAN USE  
THE THREAT OF SANCTIONS. NONETHELESS, HE INDICATED  
THAT THE GOVERNMENT WAS PREPARED TO APPLY SEVERE  
PENALTIES AGAINST THOSE WHO FAILED TO ABIDE BY GOVERN-  
MENT POLICY IN THE AREA OF PRICES OR SALARY  
INCREASES.

6. PROSPECTS OF 1977

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THE MINISTER CONCLUDED HIS SPEECH BY EXPRESSING HIS  
FAITH IN AN ECONOMIC IMPROVEMENT FOR 1977. HE SAID  
THAT THERE WOULD BE A DECREASED BUDGET DEFICIT, BETTER  
TAX COLLECTION, LESS UNPRODUCTIVE STATE EXPENDITURES,  
IMPROVE BALANCE OF TRADE AND BALANCE OF PAYMENTS AND  
MAJOR INVESTMENTS IN THE PETROLEUM, HIGHWAY CONSTRUC-  
TION, AND OTHER PRIVATE PROJECTS WOULD BE UNDERWAY.

7. REACTION AND COMMENT WILL FOLLOW BY SEPTTEL.  
HILL

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